

FINANCIAL ACCOUNTING - V



Unit - I


ISSUSE OF SHARES


MEANING

A company is a association of person with capital in to transferable shares formed to carry out a particular in common .It is an artificial person created by law to achieve the object for with is formed accounting to section 3(1)of the companies act 1956 defines a company as formed Registered and this act or an existing company .

CHARACTERISTICS OF A COMPANY

- It is a distinct person and each company is a person existing.
- Liability of the member is limited to the extent of the face value of shares held by them.
- It is a perpetual entity that is a member of a company may be changing from time to time but this does not affect the company's continuity.

- 
- The shares of a company are freely transferable in case of a private limited company.
 - A company is a person capable of owning, enjoying and disposing of the property in its own name.
 - A company, being the company, can sue in its own Name.

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- Though company is an person yet it acts throw human being 's who are called the direct of a company ownership and management.
 - It is a voluntary association of person useful for profit company.
 - A shares of company person profit in to yeas to company.



KINDS OF COMPANY OR TYPES OF COMPANY

- CHARTERED COMPANY
- STATUTORY COMPANY
- REGISTERED COMPANY

CHARTERED COMPANY

Those company's with are chartered under a special chartered by the king all sovereign east indirect company. Such company's are Rarely now-a-day as trading company's.

STATUTORY COMPANY

These company's are formed by a special act of the register are parliament example Resave Bank of India, A company finance corporation.

REGISTERED COMPANY

Registered company's such company is are incorporated under the company Act 1956 or there registered under the company's act.

FROM THE POINT OF LIABILITY THERE ARE 3 KINDS OF COMPANY

*LIMITED COMPANY

limited company in case of such company the liability of each member is limited to the face value of shares held by him. Suppose a takes a shares of Rs.100 he Reminds liable to the extent of that Amount. As so that amount is paid topayable.

Guaranty company

The liability of a number of each a company is limited to the amount he has under taken to contribute to the asset of a company in the even of it's company. The cared amount is limited. Sum which is specified in the memorandum of commercial ,Trade association and sport's club are useful object of such company is not to may profit a company.

UNLIMITED COMPANY'S

They are nothing but large part of Registered under the company's act and the just like have unlimited liability and bought a share contribution are as well as a private are stake when a company is to be wound up. Such company are is days.



FROM THE POINT OF VIEW OF PUBLIC INVESTMENT COMPANIES MAY BE OF TWO KINDS

* PRIVATE COMPANIES

*PUBLIC COMPANIES

PRIVATE COMPANY'S

A private company is a company which by in (a) Reference write to transfer it is shares if any (b)Limited the number of to fifty, Excluding past or employ of the company who are the numbers of the company (c)Prohibits to a company to for share in or demand of the company (d) any information of from person another them members director or demand or It has a minimum paid up capital of Rs.1,00,000 are such higher capital as May be private company.

PUBLIC COMPANY

A company are which private company's all the fore the not impost on such company's. It has a paid up capital of Rs.5,00,000 are such paid the capital as may be private company which is a subsidiary of company is all so to taken as company's

SHARES

The capital of company is divided in to unit's of small Demand are called shares in section 2(6) of the company's ,As a share in the share holder or member's of a company there are two types of shares a company may issue that is

- *Preference share

- *Equity Share

PREFERENCE SHARE'S

Share's which enjoy the preference rights as to and repayment of capital . In the even of winding up of the company. Over the share are called preference share. A holder preference share will get a fixed rate of dividend.

THERE ARE 8 TYPES OF PREFERENCE SHARES

- Cumulative preference shares.
- Non cumulative preference shares.
- Repayment preference shares.
- Non Repayment preference shares.
- Participating preference shares.
- Non-participating preference shares.
- Company preference shares .
- Non company preference shares.

ISSUE OF SHARES

- *For consideration other than cash

- *For cash

- *ISSUE ON SHARES FOR CASH

- *Issue of prospectus

- *Receipt of application Money

- *Allotment of shares

- *Call on shares

JOURNAL ENTRY

PARTICULAR

RS

RS

RECIPT OF APPLICATION MONEY

Bank A\c

Dr ***

To share application A\c
[being amount on application
of shares at *** per share]

TRANSFER TO SHARE CAPITAL

| PARTICULAR | | RS | RS |
|----------------------------|----|-----|-----|
| Share application A\c | Dr | *** | |
| To share capital A\c | | | *** |
| [Being money on *** shares | | | |
| Transfer to share capital | | | |

ALLOTMENT MONEY DUE ON

| PARTICULAR | | RS | RS |
|------------------------|----|-----|-----|
| share allotment A\c | Dr | *** | |
| To share capital A\c | | | *** |
| [Being amount due on | | | |
| Allotment of ***shares | | | |
| at RS*** per Shares] | | | |

RECIPT OF ALLOTMENT MONEY

| PARTICULAR | | RS | RS |
|-------------------------------------|----|-----|-----|
| Bank A\c | Dr | *** | |
| To share allotment A\c | | | *** |
| [Being allotment money received] | | | |

CALL MONEY DUE ON

| PARTICULAR | | RS | RS |
|------------------------|--|----|-----|
| Share fist call A\c | | Dr | *** |
| To share capital A\c | | | *** |
| [Being call money due | | | |
| on ***share's at Rs*** | | | |
| per share] | | | |

RECIPT OF CALL MONEY

| PARTICULAR | RS | RS |
|------------|----|----|
|------------|----|----|

Bank A\c

Dr

To share final call A\c
[Being fist call money
recived]



Unit-2

ISSUE AND REDEMPTION OF DEBENTURES

MEANING :

A company for its extension and development may require to raise funds without increasing share capital. The company may invite the public by open declaration to lend money for a fixed period at a declared rate to be paid on such money

“debenture includes debenture stock, bonds or any other securities of a company, whether constituting a charge on the assets of the company or not”

TYPES OF DEBENTURES

- ❖ **FORM SECURITY POINT OF VIEW**
- ❖ **FORM PERMANENCE POIN OF VIEW**
- ❖ **FORM PRIORITY POINT OF VIEW**
- ❖ **FORM RECORDING POINT OF VIEW**
- ❖ **FORM CONVERSION POINT OF VIEW**

ISSUE AND REDEMPTION OF DEBENTURES IN JOURNAL ENTRIES

➤ *When debentures are issued at par:*

On issue of debentures

Bank account *dr.*
To debentures account

On redemption of debentures,

Debentures account *dr.*
To bank account

➤ *When debentures are issue at premium and repayable at par :*

On issue of debentures

Bank account *dr.*
To Debentures account
To Debentures premium account

On redemption of debentures

Debentures account *dr.*
To bank account

➤ *When debentures are issued at discount and repayable at par:*

On issue of debentures

Bank account dr.

Discount on issue of debentures account dr.

To debentures account

On redemption of debentures

Bank account dr.

To bank account

➤ *When debentures are issued at par and repayable at premium:*

On issue of debenture

Bank account dr.

Loss on the issue of debentures dr.

To debentures account

To premium on the redemption of debentures account

On redemption of debentures

Debentures account dr.

Premium on the redemption of debentures account dr.

To bank account

When debentures are issued at a discount but repayable at a premium

On issue of debenture

Bank account *dr.*

Loss on the issue of debentures account dr.

(For discount and premium on redemption)

To debentures account

To premium on the redemption of debentures account

On redemption of debentures

Debentures account *dr.*

Premium on the redemption of debentures account dr.

To bank account

When debentures are issued at premium and also repayable at premium

On issue of debenture

Bank account *dr.*

Loss on the issue of debentures account dr.

To debentures account

To premium on the redemption of debentures account

To capital reserve account

On redemption of debentures

| | |
|---|-----|
| Debentures account | dr. |
| Premium on the redemption of debentures account | dr. |
| To bank account | |

Own debentures :

It has already been mentioned in this chapter that directors, if authorised by the terms of the contract, can purchase debentures whenever they find the market price favourable to the company such purchase debentures can be either cancelled by the company or may be kept as an investment called own debentures and may be utilised for reissue when needed afterwards

Ex-interest and cum – interest quotations:

If must be noted that when securities are purchased or sold on date other than the date of interest , distinction must be made between the capital and revenue portion of the price paid for the debentures .ex- interest it excludes the interest and for recording purposes interest is calculated and added separately to the quotation

III UNIT

UNDERWRITING

- MEANING:

underwriting is a contract between a company and underwriters. they may be individuals or institutions, ready to take up the whole or a portion of the shares or debentures issued, which are not subscribed for by the public for a consideration called underwriting commission.

UNDERWRITING

- DEFINITION:

“underwriting may be defined as a contract entered into by the company with persons or institutions, called underwriters, who undertake to take up the whole or a portion of such of the offered shares or debentures as may not be subscribed for by the public, in consideration of remuneration called underwriting commission”.

UNDERWRITERS

- ❖ Underwriter is a person or institution that guarantees or agrees to take up the shares or debentures of a company which are not subscribed for the public.

SUB_UNDERWRITERS

- If an underwriter himself enters into a sub_agreement with other person, he is called a sub_underwriters.
- The underwriter gets a small commission, called overriding commission, on the shares underwritten by the sub_underwriter.

ADVANTAGE OF UNDERWRITING

- It acts as a sort of guarantee against the danger of not receiving minimum subscription.
- It provides assurance to a company for the definite receipt of stipulated amount of a public issue.
- It enables the company to go ahead with its investment programme.
- It enables the smooth functioning of capital market.

Advantages of sub_underwriting

- ❖ The underwriter transfers a part of his underwriting risk.
- ❖ It helps in transferring the risk.



UNDERWRITING COMMISSION

- It is the consideration payable to the underwriters for underwriting the shares or debentures of a company.

MANAGERS TO THE ISSUE

- The companies are free to appoint one or more agencies as managers to the issue. the aggregate amount payable as fees to the issue manager shall not exceed the following limit.

I. For issue upto Rs.5 crores-0.5%

II. For issue above Rs.5 crores-0.2%

Such fees shall not be paid in respect of the following

- Amount agreed to be taken by the financial institution as investor/underwriter.
- Promoters quota of capital.
- Amounts subscribed on right basis.



TYPE OF UNDERWRITING

- FULL UNDERWRITING
- PARTIAL UNDERWRITING
- FIRM UNDERWRITING

UNDERWRITING TYPES

➤ FULL UNDERWRITING:

the underwriting of the whole issue of shares or debentures of a company is called full underwriting.

➤ PARTIAL UNDERWRITING:

the u/w of a part of the issue of shares or debentures of a company is called partial u/w.

➤ FIRM UNDERWRITING:

the agreement of u/w to buy a definite number of shares or debentures in addition to the shares or debentures he has to take under agreement is called firm underwriting.

Firm underwriting:

| | |
|-----------------|-----|
| Gross liability | xxx |
|-----------------|-----|

(-)market application xxx

XXX

(-)unmarket application in
the ratio of gross liability xxx

Net liability xxx



❖ MARKED APPLICATIONS:

application forms received by the company with any marking or stamp of an underwriter are called marked applications.

❖ UNMARKED APPLICATION:

application forms received by the company without any name of the underwriter are called unmarked applications or direct applications.

Market application:

| | |
|-------------------------|-------|
| Gross liability | xxx |
| (-)marked application | xxx |
| | <hr/> |
| | xxx |
| (-)unmarked application | xxx |
| | <hr/> |
| Net liability | xxx |
| (+)form underwriting | xxx |
| | <hr/> |
| Total liability | xxx |

Unmarked application:

| | |
|-----------------|-----|
| Gross liability | xxx |
|-----------------|-----|

| | |
|-----------------------|-----|
| (-)marked application | xxx |
|-----------------------|-----|

| | |
|-------------------------|-------|
| | <hr/> |
| | xxx |
| (-)unmarked application | xxx |

| | |
|----------------------|-------|
| | <hr/> |
| Net liability | xxx |
| (+)firm underwriting | xxx |

| | |
|-----------------|-------|
| | <hr/> |
| Total liability | xxx |

Profit prior to incorporation:

- ❖ when a company prepares its final a/c for the first year after purchasing a going concern it has to allocate the profit between the period of purchase to the date of incorporation and from the date of incorporation to the date of final account.
- ❖ if the company has earned any profit from the date of purchase to the date of incorporation such profit is called as profit prior to incorporation.

Loss to incorporation:

- If the company has incurred any loss from the date of purchase to the date of incorporation such loss is called as loss prior to incorporation.

Calculation of various ratios:

➤ TIME RATIO:

Time ratio is calculated by taking into consideration the time falling from the last date of balance sheet to the date of incorporation and the period between the date of incorporation to the last date of presenting final account.

Weighted Time Ratio:

- When there is a change in the number of employees or in the office accommodation etc. before and after the incorporation weightage must be given to the changes in arriving at the time ratio. Such ratio is called weighted time ratio.

Sales Ratio:

- Sales ratio is calculated by taking into consideration the sales of pre_incorporation period to that of sales of post_incorporation period.

Weighted Sales Ratio:

- If the sales are not uniform throughout the accounting period, weighted must be given to the changes in arriving at the sales ratio. sales ratio adjusted for the change in sales is called weighted sales ratio.

Purchase Ratio:

- Purchase ratio is calculated by taking into account the purchase of pre_incorporation period to that of purchase of post_incorporation period.

Method of Ascertainment:

- PREPARATION OF TRADING ACCOUNT:

if the gross profit is not given, prepare a trading a/c for the full accounting period to find out the gross profit.

- CALCULATION OF VARIOUS RATIOS:

After a careful scrutiny of the period and sales, the sales ratio and time ratio are calculated.

- Preparation of profit and loss a/c for the pre_incorporation, post_incorporation separately.

| Number | Nuture of Items | Basis of Allocation | Examples |
|--------|---------------------|---|---|
| 1 | Profit/loss | Sales ratio | Gross profit/loss |
| 2 | Fixed Expenses | Time ratio or Weighted Time ratio | Rent,Rates,Salaries . |
| 3 | Variable Expenses | Sales ratio or weighted sales ratio | Bad Debts,Commission,Advertisement. |
| 4 | Variable Expenses | Purchaes ratio | Carriage inward |
| 5 | Expenses of Company | Wholly to the post_incorporation period | Directors Fees,Director Salaries. Salary,Drawings and the |
| 6 | Expenses of firm | Wholly to the pre_incorporation period | Partners Salary,Drawing the like.. |

FINAL ACCOUNTS:

- ❖ in case of sole trading concern or partnership firm the preparation of final accounts “is not compulsory but companies have a statutory obligation to prepare final account as required by sections 209 and 210 of the companies Act 1956.

Profit/loss appropriation a/c;

To provision tax xxx

To dividend

equalisation xxx

To General

Reserve xxx

To Proposed

Equity xxx

To corporate

dt tax xxx

To balance c/d xxx

xxx

By balance b/d xxx

By netprofit b/d xxx

xxx

BALANCE SHEET:

- LIABILITY:

- ❖ capital
- ❖ Reserves&surples
- ❖ Secured loans
- ❖ Unsecurer loans
- ❖ Current liability& provision.


- ASSET:

- ❖ Fixed Assets
- ❖ Investment
- ❖ loan ,Advance.
- ❖ Miscellaneous exps.

BALANCE SHEET

| LIABILITY | RS | RS | ASSETS | RS | RS |
|-------------------|-----|----------|--------------------|-----|-----|
| SHARE CAPITAL | | XXX — | FIXED ASSETS | | |
| Pre shaes capital | Xxx | | Plant&mac hinary | Xxx | |
| Equit share | Xxx | | Furniture& fitting | Xxx | |
| Call up capital | Xxx | xxx | Goodwill | xxx | Xxx |
| RESERVES&SU RPLUS | | | INVESTME NT | | Nil |
| Reserve | Xxx | | | | |
| p/l a/c | Xxx | xxx | | | |

| SECURED & UNSECURED LOAN | | | CURRENT ASSET | | |
|---|-----|-----|---------------------------------|-----|-----|
| Debentes | Xxx | | Closing stock | Xxx | |
| Bank o/d | Xxx | | Debtors | Xxx | |
| Markgage loan | Xxx | Xxx | Cash in bank | Xxx | Xxx |
| CURRENT LIABILITY | | | LOANS & ADVENCES | | |
| Creditors | Xxx | | Bill exchange | Xxx | |
| Bill payable | Xxx | Xxx | Advance | Xxx | xxx |
| | | | | | |



| PROVISION | | | MISCELLANEOUS EXPENDITURE | | |
|----------------------|-----|-----|---------------------------|-----|-----|
| Proposed | Xxx | | Preliminary Expenses | Xxx | |
| Corporate | Xxx | | Commission | Xxx | |
| Outstanding Expenses | Xxx | Xxx | Discounting Issue share | Xxx | xxx |



UNIT-V



Amalgamation

When 2 or more existing companies combine together to form a new company it is amalgamation. All the combining companies are liquidated a new company is floated to take over the business.

Absorption:

When one existing company take over the Business one more existing companies it is absorption. The companies whose business is take over the Liquidates. No new company's formed.



External Reconstruction:

When an existing company is liquidated and a new company is formed with the same shareholder to take over its business it is external reconstruction. Sick companies with accumulated losses usually undergo such reconstruction.

Purchase consideration:

The price paid by the purchase company to the liquidators of the selling company is called purchase. Price is made as per the agreement reached among the Companies.

Method of calculation purchase consideration.

- ❖ Lump sum method

- ❖ Net payment method

- ❖ Net asset method

- ❖ Value of shares method

Purpose of Reconstruction:

The purpose of reconstruction is to save the Company from further losses and to increase its work efficiency.

Difference between Amalgamation and absorption

- Two or more carrying on similar business merged in to the one single company.
- All amalgamation companies should go into liquidation.
- A new company is to formed to taken over these business .
- The purpose of amalgamation is to bring about combine or for eliminating the competition.
- The central government is empowered to order amalgamation of two or more companies in the national interest.
- An existing company take over business of one or more existing companied.
- The companies whose business are taken over should go into liquidation.
- No new formation of company is necessary.
- The purpose absorption is to purchase other business for exporting the activities or size of the business.
- Absorption companies in national interest is not possible under the act.ss

Distinguish between Amalgamation and external construction


- Merging of two or more companies carrying on similar business into one single company.
- All amalgamation companies should go into liquidation.
- A new company is to be formed to take over the business.
- The purpose of amalgamation is to be bring about the combination or eliminated the competition.
- The central government is empowered to order amalgamation of two or more companies.
- An existing company goes into liquidation for the purpose of reconstruction of the company's financial structure.
- It may take place either with or without the liquidation.
- A new information but the information but the same company function under a new name.
- The purpose reconstruction is merely to re organize a company which incurred heavy losses for many years.
- Reconstruction companies in national interest is not possible under the act.

EXTERNAL RECONSTRUCTION

Meaning:

When an existing company is liquidated and a new company is formed with the same shareholders to take over its business, it is reconstruction. Sick companies with accumulated losses usually undergo such reconstruction.

'Reconstruction' of a company involves reorganization of its 'Financial structure'. If the reorganization is accomplished without liquidating the company, it is 'Internal Reconstruction'. When reorganization of a company's financial structure necessitates winding-up of the company and floatation of a new company with the same assets and shareholders, it is termed as 'External Reconstruction'.



DIFFERENCE BETWEEN INTERNAL & EXTERNAL RECONSTRUCTION

Internal Reconstruction

Under this scheme, the company is not liquidated.

No, new company is formed.

Capital is reduced.

Accumulated losses are written off through CAPITAL REDUCTION.

External Reconstruction

Under this scheme, the company is liquidated.

New company is formed to the take over of the existing business.

No such reduction is made.

Accumulated losses of vendor company are transferred to EQUITY SHARE HOLDER account.



Problem & Solution

A limited acquired the undertaking of B limited on 31/3/16 for a purchase consideration of RS.2,50,00,000 to be paid by fully paid equity shares of RS.10 each. Balance Sheets of the two companies on the date of acquisition were as follows:

| | A LTD. | B LTD. |
|---|-------------|-------------|
| I. Equity and Liabilities | | |
| (1) Shareholders' Funds | | |
| (a) Share Capital: | | |
| Equity shares of RS.10 each fully paid up | 2,50,00,000 | 1,50,00,000 |
| (b) Reserves & Surplus: | | |
| General Reserve | 1,20,00,000 | 18,00,000 |
| Development Rebate Reserve | 10,00,000 | 37,00,000 |
| Workers' Compensation Fund | 15,00,000 | 24,00,000 |
| Surplus Account | 10,00,000 | 53,00,000 |
| Shareholders' Fund | 4,05,00,000 | 2,82,00,000 |
| (2) Current Liabilities | 45,00,000 | 95,00,000 |
| Total Equity and Liabilities | 4,50,00,000 | 3,77,00,000 |
| II. Assets | | |
| (1) Non-Current Assets | | |
| Land & Building | 1,20,00,000 | 80,00,000 |
| Plant & Machinery | 2,00,00,000 | 1,80,00,000 |
| Furniture & Fixtures | 10,00,000 | 20,00,000 |
| (2) Current Assets' | | |
| Stock | 55,00,000 | 40,00,000 |
| Debtors | 45,00,000 | 40,00,000 |
| Bank Balance | 20,00,000 | 17,00,000 |
| Total Assets | 4,50,00,000 | 3,77,00,000 |

Pass the necessary journal entries in the books of A Limited when amalgamation is in the nature of

- (i) Merger and
- (ii) By way of purchase.

Also prepare the Balance Sheet of A Limited after amalgamation assuming that Development Rebate Reserve and Worker' Compensation Fund of B Limited are required to be continued in the books of A Limited

When Amalgamation is in the Nature of Merger

| | | | |
|--------------------------|-----|-------------|-------------|
| Business Purchase a/c | Dr. | 2,50,00,000 | |
| To Liquidators of B Ltd. | | | 2,50,00,000 |

(Being purchase of business of B Ltd.)

| | | | |
|----------------------|-----|-----------|--|
| Land & Buildings a/c | Dr. | 80,00,000 | |
|----------------------|-----|-----------|--|

| | | | |
|-----------------------|-----|-------------|--|
| Plant & Machinery a/c | Dr. | 1,80,00,000 | |
|-----------------------|-----|-------------|--|

| | | | |
|--------------------------|-----|-----------|--|
| Furniture & Fixtures a/c | Dr. | 20,00,000 | |
|--------------------------|-----|-----------|--|

| | | | |
|-----------|-----|-----------|--|
| Stock a/c | Dr. | 40,00,000 | |
|-----------|-----|-----------|--|

| | | | |
|-------------|-----|-----------|--|
| Debtors a/c | Dr. | 40,00,000 | |
|-------------|-----|-----------|--|

| | | | |
|----------|-----|-----------|--|
| Bank a/c | Dr. | 17,00,000 | |
|----------|-----|-----------|--|

| | | | |
|--------------------------|-----|-----------|--|
| General Reserve a/c(b/f) | Dr. | 29,00,000 | |
|--------------------------|-----|-----------|--|

| | | | |
|------------------------|--|--|-----------|
| To Current Liabilities | | | 95,00,000 |
|------------------------|--|--|-----------|

| | | | |
|-----------------------------------|--|--|-----------|
| To Development Rebate Reserve a/c | | | 37,00,000 |
|-----------------------------------|--|--|-----------|

| | | | |
|-----------------------------------|--|--|-----------|
| To Workers' Compensation Fund a/c | | | 24,00,000 |
|-----------------------------------|--|--|-----------|

| | | | |
|--------------------------|--|--|-------------|
| To Business Purchase a/c | | | 2,50,00,000 |
|--------------------------|--|--|-------------|

(Being merger of assets, liabilities and reserves of B Ltd. With A Ltd. And difference transferred to General Reserve a/c)

| | | | |
|-----------------------|-----|-------------|--|
| Liquidators of B Ltd. | Dr. | 2,50,00,000 | |
|-----------------------|-----|-------------|--|

| | | | |
|-----------------------------|--|--|-------------|
| To Equity Share Capital a/c | | | 2,50,00,000 |
|-----------------------------|--|--|-------------|

(Being payment of purchase price by issue of 25lakh equity shares of RS.10 each)

Balance Sheet of A Ltd. (after amalgamation) as on 31/3/16

I. Equity and Liabilities

(1) Shareholders' Funds+++

(a) Share Capital

50,00,000 equity shares of Rs.10 each fully paid 5,00,00,000

(Of the above 25,00,000 shares of Rs.10 each issued for purchase of business of B Ltd.)

(b) Reserves and Surplus:

General Reserve 91,00,000

Development Rebate Reserve 47,00,000

Workers' Compensation Fund 39,00,000

Surplus a/c 10,00,000

TOTAL 6,87,00,000

(2) Non-Current Liabilities

NIL

(3) Current Liabilities

1,40,00,000

TOTAL EQUITY & LIABILITIES (1)+(2)+(3)

8,27,00,000

II. Assets

(1) Fixed Assets:

| | |
|----------------------|-------------|
| Land & Buildings | 2,00,00,000 |
| Plant & Machinery | 3,80,00,000 |
| Furniture & Fixtures | 30,00,000 |

| | |
|-------|-------------|
| TOTAL | 6,10,00,000 |
|-------|-------------|

(2) Current Assets:

| | |
|--------------|-----------|
| Stock | 95,00,000 |
| Debtors | 85,00,000 |
| Bank Balance | 37,00,000 |

| | |
|-------|-------------|
| TOTAL | 2,17,00,000 |
|-------|-------------|

| | |
|----------------------|-------------|
| TOTAL ASSETS (1)+(2) | 8,27,00,000 |
|----------------------|-------------|

When Amalgamation is by Way of Purchase

| | | |
|--|-------------|-------------|
| Business Purchase a/c | 2,50,00,000 | |
| To Liquidators of B Ltd. | | 2,50,00,000 |
| (Being purchase of business of B Ltd.) | | |
| Land & Buildings a/c | 80,00,000 | |
| Plant & Machinery a/c | 1,80,00,000 | |
| Furniture & Fixtures | 20,00,000 | |
| Stock a/c | 40,00,000 | |
| Debtors a/c | | 40,00,000 |
| Bank a/c | | 17,00,000 |
| To Current Liabilities | | 95,00,000 |
| To Business Purchase | | 2,50,00,000 |
| To Capital Reserve a/c(B/F) | | 32,00,000 |
| (being assets and liabilities taken over) | | |
| B Ltd. | 2,50,00,000 | |
| To Equity Share Capital a/c | 2,50,00,000 | |
| (Being payment of purchase price by issue of 25,00,000 shares of Rs.10 each) | | |
| Amalgamation Adjustment a/c | 61,00,000 | |
| To Development Rebate Reserve a/c | | 37,00,000 |
| To Workers' Compensation Fund a/c | | 24,00,000 |
| (Being carrying forward of reserves of B Ltd.) | | |

Balance Sheet of B Ltd.(after amalgamation)

I. Equity and Liabilities

(1) Shareholders' Funds

(a) share Capital

5,00,00,000

50,00,000 equity shares of Rs.10 each fully paid

(of the above 25,00,000 shares of Rs.10 each issued for purchase of business)

(b) Reserves and Surplus

Capital Reserve

32,00,000

General Reserve

1,20,00,000

Development Rebate Reserve

47,00,000

Less: Amalgamation Adjustment a/c

37,00,000

10,00,000

Workers' Compensation Fund

39,00,000

Less: Amalgamation Adjustment a/c

24,00,000

15,00,000

TOTAL

6,87,00,000

(2) Non-Current Liabilities

nil

(3) Current Liabilities

1,40,00,000

TOTAL EQUITY AND LIABILITIES

8,27,00,000

II. Assets

(1) Fixed Assets:

Land & Building

2,00,00,000

Plant & Machinery

3,80,00,000

Furniture & Fixtures

30,00,000

TOTAL

6,10,00,000

(2) Current Assets:

Stock

95,00,000

Debtors

85,00,000

Bank Balance

37,00,000

TOTAL


2,17,00,000

TOTAL ASSETS (1)+(2)

8,27,00,000

STEP FOR RECONSTRUCTION

- **STEP.1** Estimating the losses in the formulation of capital reduction scheme the first step is to estimate the total loss which a company suffered to date.
- **STEP.2** Writing off the loss the loss is calculated is to be written off out of the sacrifice made by the shareholder debenture holder creditors etc.

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- **STEP.3** Compensating the various parties if loss is borne by equity share holder alone there is no necessity of compensating them because they will automatically be compensating in future earnings when preference shareholder and debitors holders are also asked to suffer some loss they may be compensated by increasing by the rate of dividend and interest.

Difference between Absorption and External Reconstruction

Absorption

- An existing company takes over the business of one or more existing company
- No formation of a company is necessary
- The purpose of absorption is to purchase other business for expanding the activities or size of the business.

External Reconstruction

- An existing company goes into liquidation for the purpose of reconstruction of a companies financial structure
- No new formation but the same company function under a new name
- The purpose of reconstruction is merely to recognise a company which incurred heavy losses for many years